

APPENDIX

NOTES FOR FOMC MEETING
OCTOBER 3, 1989

SAM Y. CROSS

It is useful to look at the last six weeks in terms of two separate periods--one being the first several weeks after the last FOMC meeting, and the other being the past 10 days since the Group of Seven meeting in Washington.

In the weeks immediately after the last FOMC meeting, the underlying positive sentiment toward the dollar that has characterized recent months persisted. The dollar remained in demand by customers and investors, and upward pressure was periodically reinforced by economic data indicating continued strength of the U.S. economy. The upward pressure was resisted from time-to-time by intervention, especially by ourselves and the Japanese. The U.S. authorities sold \$1,379 million against the yen and \$1,052 million against marks during that 4-1/2 week period prior to the G-7 meeting.

As the date of the G-7 meeting approached, the market became wary of the possibility of more aggressive official actions through intervention and monetary policy adjustments to curb the dollar's strength. As the market's enthusiasm became more tenuous, the dollar repeatedly failed to hold its highs.

After the G-7 met on Saturday, September 23, it issued a communique which expressed unambiguously the concern of the group with the dollar's rise in recent months, noting that the rise was "inconsistent with longer-run economic fundamentals" and stating that a further rise--or an excessive decline--could adversely effect world economic prospects. The Ministers and Governors also expressed their intention to "cooperate closely in exchange markets."

As markets opened in Tokyo Monday morning, the dollar began to decline on the strength of the G-7 statements and reports of official intervention in other Far East markets. It became known that, uncharacteristically, the Federal Reserve and the Bank of Canada had joined the Bank of Japan in selling dollars in Tokyo. Even though the amounts sold were very small (\$50 million for the U.S. and

for Canada), the operation help signal a firmness in the G-7 resolve. The Europeans then followed through with coordinated dollar sales. By the time the U.S. market opened, the dollar had already moved down significantly, so that we sold only \$60 million on Monday in New York to signal our presence.

The G-7 monetary authorities continued to intervene from time to time throughout the week, generally at times when there were bouts of upward pressure. As the week progressed, many market participants appeared to grow somewhat less confident that the impact of the official operations would be ephemeral--particularly as expectations grew that an increase in interest rates was in the offing for Germany and other European countries.

Thus from Friday, September 22--the day before the G-7 met, through the close of business yesterday, the dollar declined by 3.7 percent against the DM and 4.4 percent against the yen. Total U.S. intervention during those days amounted to \$1,410 million of which \$740 million was against the mark and \$670 million against the yen.

Intervention in \$/DM and \$/Y by the Germans, Japanese and others during that ten days totaled \$1,965 million. Aside from those key currencies, there were substantial sales of dollars by others against their home currencies, totalling \$3,886 million. Many of these sales, however, were triggered by problems of those currencies not directly related to the dollar--most importantly, sterling has

been facing its own problems, and the U.K. authorities bought worth of sterling.

Let me emphasize that in these operations we've tried to perform a delicate balancing act. We have been acutely aware of the importance of not driving down the dollar in a falling market, and not unleashing pressures that would spill over to upset other financial markets. At the same time it was recognized by the G-7 that, if we operated only to cushion the pace of the dollar's rise and not turn it around, the market's strongly positive attitude toward the dollar would not weaken.

Accordingly we felt we had to act somewhat less defensively than before in order to curb the dollar's upward momentum while still exercising care and restraint. The G-7 agreed that, after the release of the communique, each of us would intervene on a scale related to movement in the dollar rate. That is, we would intervene in a substantial amount if the dollar was rising, in a more moderate amount if the dollar was stable, and not at all or only symbolically if the dollar was declining significantly. In the event, during the 10-day period, the dollar was allowed to decline when market forces took it down, and upward pressures were resisted by intervention.

I think the latest G-7 actions can be seen as a further step in the effort, beginning with the Louvre Accord, to encourage greater stability in the exchange rates. To put it in context, the decline in the dollar that has occurred in the past ten days brings it back to levels seen as recently as early August. On balance the dollar is also approximately at the same level, as measured by Mr. Truman's trade weighted index, as it was at the time of the Louvre. During that 2-1/2 years since that Accord, we've had four periods of

resisting the dollar's rise and three periods of resisting its decline.

I would like to take a minute for one further comment. The shadow open market committee has complained about alleged losses on foreign currency balances. Mr. Truman has sent you an excellent memorandum pointing out the factual errors in their calculations. Of course, any time the dollar rises, the dollar value of foreign currency balances declines, and vice versa. Our own records, which follow accounting standards and are based on acquisition values, show a moderate gain. But any calculation of profits and losses is highly dependent on the base period chosen.

More importantly, it seems to me inappropriate to measure our success or failure by these unrealized accounting gains and losses, however calculated. If we chose to drive the dollar down to a very, very low level we could show huge gains on our foreign currency balances. But no one would say that would be sensible public policy.

I would also like to report that as authorized by the Committee, the Federal Reserve joined the ESF in participating in a financing arrangement for Mexico. The Federal Reserve and the ESF shared equally in the provision of \$168.2 million as part of a \$672.6 million multilateral facility. In addition, the U.S. monetary authorities provided bilaterally \$300 million through the ESF and \$700 million from our existing swap arrangement with the Bank of Mexico. Both the multilateral and bilateral financing facilities are backed by IMF and IBRD drawings and mature on February 15, 1990.

Mr. Chairman, in closing I would like to ask the Committee's approval for the foreign exchange operations that occurred during the intermeeting period. The Federal Reserve share of the Desk's

operations represents \$1024.5 million sold against Japanese yen and \$896 million sold against German marks.

FOMC NOTES
PETER D. STERNLIGHT
OCTOBER 3, 1989

Domestic Desk operations since the last meeting have been directed at holding reserve conditions steady. The allowance for seasonal and adjustment borrowing remained at \$550 million. Through much of the period we stated the associated expectation for Federal funds trading as "the area of 9 percent or a shade higher." With actual funds trading often a bit under 9 percent, and in any event holding very close to 9, we later stated the expectation as being "around 9 percent"--which is also how the market generally sees our stance.

Actual borrowing averaged slightly over \$550 million for the two full reserve maintenance periods since the last meeting. It has run higher in the current period--averaging \$687 million through yesterday with the added borrowing mainly attributable to the effects of Hurricane Hugo. During much of the period, adjustment borrowing ran exceptionally light while seasonal borrowing continued at a substantial level.

Federal funds averaged 8.96 percent in the first full maintenance period and exactly 9 percent in the second. Partly due to quarter-end pressures and projection problems related to Treasury balances, the average has edged up so far in the current reserve period to 9.10 percent (through yesterday).

The largely steady money market over the period masked some sizable reserve flows and uncertainties about reserve factors from day to day that related particularly to Treasury balances. The uncertainties mainly reflected difficulties in projecting tax receipts and payments related to the thrift bailout program. Indeed, we had a whopper of a reserve projection miss last Friday when close to \$8 billion of anticipated thrift bailout expenditures did not result in actual cash outflows.

As has been the case over much of the spring and summer, reserves were provided in size through foreign exchange intervention, roughly meeting or somewhat more than meeting the usual need to add reserves stemming chiefly from increased currency in circulation. The Desk drained reserves temporarily through several rounds of short-term matched sale-purchase transactions. On occasion these were timed to underscore the Desk's determination to keep the funds rate from slipping too much below 9 percent, especially when it appeared that such slippage might be taken in the market as setting the stage for a further easing in the System's policy stance. On a few other occasions, reserves were supplied temporarily through repurchase agreements; an especially large amount was arranged at the tail end of the September 20 reserve period as taxes poured in to the Treasury.

Outright changes in our securities holdings were relatively modest following the heavy sales and run-offs undertaken in the previous intermeeting period. Notably, though,

the recent period included a \$500 million run-off in the System's holdings of Treasury coupon issues on October 2; generally run-offs at maturity have been undertaken only in bills. We did also arrange in yesterday's bill auctions to run off \$600 million of bills this Thursday. In addition we sold about \$150 million of bills to foreign accounts and ran off some \$50 million of agency holdings. Altogether, the System's outright holdings of Treasury and agency issues were reduced by \$1.3 billion on a commitment basis.

The reason for the unusual run-off in coupon holdings was two-fold: first, the timing of the maturity of the notes in question happened to fit our anticipated reserve-draining need closely, coinciding with a steep projected run-down in Treasury balances. Second, we have already reduced our bill holdings rather substantially in recent months through sales and run-offs and while our bill holdings are still very large (over \$100 billion) it seemed worthwhile to establish the point that coupon holdings can also be reduced in this manner. (So far this year, the System's bill holdings are down about \$16 billion including yesterday's run-off, while coupon holdings are up about \$1 billion.)

Growth in the M2 money measure held pretty close to Committee expectations over the interval. The near 9 percent growth rate in that measure from June to September lifted M2 from slightly under to comfortably above the lower bound of its annual

growth cone during the course of the third quarter. M3, on the other hand, slowed markedly in August and September as liabilities contracted at thrifts. The June-to-September M3 growth rate of barely over 4 percent leaves this measure only very slightly above the lower bound of its annual growth cone. The 5 1/2 percent three-month growth rate for M1 left September M1 still slightly under its December 1988 level.

Most market interest rates moved in a fairly narrow range over the intermeeting period, generally ending up about unchanged to modestly higher. Business news during the period was seen as mixed, providing little reason for analysts to expect the Fed to change policy in either direction. There remains an undercurrent of expectations that the next policy move will be an easing but such a move is not generally expected to be large or to come very soon. Some would look for a shift by about year-end. Others would place any move even further off, while a few would question the basic proposition that greater ease is more likely than greater restraint in the next couple of quarters. The consensus view about the economy seems to be an expectation of slow growth but no general recession, and roughly a continuation or perhaps very slight slowing in a core rate of inflation that excludes food and energy prices.

Yield changes were especially narrow in light activity through the early part of the period. A slight downward bias in yields could be attributed in part to the strong dollar at that

point. Midway through the interval the high-yield corporate market was severely jolted by news that Campeau Corporation could not make timely interest payments on some of its junk bonds. The disruption had only minor effects outside the junk bond area itself and even that sector regained some stability--albeit with lingering unease--after Campeau was promised a cash infusion by the Olympia & York group. Late in the period, Treasury and other higher grade bonds came under some downward price pressure largely related to the weakening dollar and prospects for increased supply. The supply prospects include an expectation--though a wavering one--that the next few weeks may see the first block of long-term Refcorp bonds to help fund thrift bailouts.

Yields on Treasury coupon issues rose about 5 to 20 basis points over the interval while the Treasury raised about \$10 billion of new money in this sector. The larger yield increases were in the 1-5 year area while the long end was up a scant 5 basis points or so.

At the same time, Treasury bill rates showed small mixed changes over the period. The Treasury was raising money at regular weekly auctions during the interval, but also making net paydowns of cash management bills around the time of the September tax date--for a net paydown of \$ 2 1/2 billion in bills. The three- and six-month issues were auctioned yesterday at average rates of 7.83 and 7.92 percent, compared with 7.99 and 7.85 percent just before the August Committee meeting. Part way

through the period, bill yields were pulled appreciably lower as demands were enlarged by flight-to-quality concerns during the interval of troubles in the junk bond market, along with concerns about LDC debt and the potential impact on money center banks. The sizable paydowns of cash management bills were also a factor at that time. More recently, bill yields have worked back higher as the flight-to-quality concerns abated and market participants factored in more sober appraisals about the prospects for day-to-day funds and financing costs to hold near recent levels for an extended time. Meantime, rates on private short-term paper such as commercial paper and bank CD's edged up about 5 to 25 basis points over the period--some of which appeared to reflect quarter-end pressures.

In sum, the markets are now in a holding pattern. There is a fairly widespread but weak expectation of a little easing yet to come, but the passage of time doesn't seem to bring the expectation any closer. With convictions not strongly held, the markets remain vulnerable to short-term swings in sentiment as they evaluate each new economic report or possible policy nuance that might be drawn from central bank actions or statements.

MICHAEL J. PRELL
OCTOBER 3, 1989

FOMC BRIEFING -- ECONOMIC OUTLOOK

As you know, with this edition of the Greenbook, we have extended our forecast through 1991. I can assure you that we didn't do this in the belief that we can pinpoint events more than two years down the road. We simply thought that the longer time span would permit us to communicate more clearly what we see as the strategic issues facing the Committee over the intermediate run.

In this instance, we are attempting to highlight two basic analytical points. The first is that we see no reason to expect a significant decline in the underlying trend of inflation without some easing of pressures on resources. As a result, in our forecast, we've tried to give you our judgment about what it might take in terms of monetary policy to produce a period of relatively slow, but sustained, growth in the economy.

The second point is that, if the surprising strength of the dollar this year should at some time be reversed, as we think likely, then the resultant acceleration of import prices will tend to boost the domestic price level. Just how great an effect this shock to the level of prices will actually have on the trend of inflation will, of course, depend considerably on how accommodative monetary policy is.

Frankly, the news of recent weeks has done little to clarify whether our general view of the inflation outlook is correct. There have been few new wage data, and the PPI and CPI have been buffeted by large swings in energy prices and by a number of unusual seasonal

influences. We do, however, believe that the softness in intermediate materials prices and in prices of a variety of consumer commodities is in part symptomatic of direct and indirect effects of the dollar's upswing. As we indicated in the Greenbook, econometric model runs suggest that, if the dollar had remained at the fall 1988 levels, we would have been looking at roughly a half percentage point more inflation this year.

Our near-term forecast is for weak energy prices to keep CPI increases on the moderate side through the end of the year. However, because of the tautness of labor markets and the big increase in the cost of living in the first half of this year, we are anticipating a slight pickup in wage increases. The major jolt to employers' costs, though, will come from the January 1 hike in social security payments, which will add 3/10 of percent to compensation next year -- or more than a percentage point, at an annual rate, in the first quarter. If, as we've assumed, a minimum wage increase is enacted, the cost pressures will be still greater.

Meanwhile, on the real side, recent developments have not given clear indications whether, under current financial conditions, the economy is likely to accelerate or decelerate or just stay in the moderate growth channel that has held the unemployment rate around 5-1/4 percent for a while now. As you know, we are looking for some slowing in real GNP growth over the next couple of quarters, into the 1 to 2 percent range.

A major factor in this projection is our expectation that the improvement in the real trade balance will be stalling out as a

consequence of the high dollar's effect on U.S. price competitiveness. To this point, with merchandise trade figures available only through July, we can cite no tangible evidence of this stalling out: indeed, the trend of real export growth remained strong in the first half of this year, and real import growth has been relatively weaker.

As for domestic demand, we expect that the estimated third-quarter pickup in growth of private spending will not be sustained. To be sure, we are predicting that residential construction activity will strengthen this fall; improved home sales and consumer sentiment regarding homebuying conditions suggest that there will be a rebound from the August dip in housing starts. But consumption and business capital spending appear likely to decelerate.

In the consumer sector, the big swing factor obviously is autos. Our interpretation of recent events is that Detroit built too many cars in the last model year, had to slash prices to clear them out, and now will be able to sell fewer 1990 models, at acceptable margins, than would otherwise have been the case. It is worth noting, however, that we are guessing that real consumer outlays, excluding motor vehicles, rose at a hefty 3-1/2 percent annual rate in the third quarter. Growth in labor income has been fairly strong, and real purchasing power has been bolstered of late by the slackening in price increases. Under the circumstances, we think it likely that non-auto consumer spending will provide some momentum to economic activity in the near term.

In the business sector, it appears that the slowing in output growth this year, the easing of capacity pressures, and the marked

weakening of operating profits may be starting to damp investment demand. The available data point to an increase of roughly 5 or 6 percent, at an annual rate, in real equipment spending in the third quarter -- a substantial gain, but less than half the pace over the first two quarters of this year. And recent trends in new orders for nondefense capital goods indicate the likelihood of a gradual further slowing in the growth of equipment purchases in the period ahead. Meanwhile, after some rebound this summer from a sharp drop in the second quarter, spending on nonresidential structures seems likely to be soft, owing especially to the drag from vacant office space.

I shall round out my sectoral survey with a word about inventories -- which is always a potential source of volatility in the economy. This morning the Commerce Department released the August figures for manufacturers' stocks. They were up only \$12 billion, at an annual rate, with aircraft accounting for more than half the rise. Although there may be some larger-than-desired stocks here and there in manufacturing and trade, our impression is that the overall inventory situation is pretty much a neutral influence for near-term production.

In sum, then, we still don't perceive serious near-term recessionary risks in the economy; however, we do foresee some further slowing in growth, which, as I noted at the outset, we think is necessary if a disinflationary trend is to be restored.

October 3, 1989

**FOMC Briefing
Donald L. Kohn**

In financial markets over the intermeeting period, the so-called "soft landing" scenario withstood some unexpected buffeting. Despite perturbations in the foreign exchange market and questions about the underpinnings of corporate restructurings, most interest rates were little changed on balance and the upward march of the stock market was barely disturbed. In mortgage markets yield spreads narrowed after the onset of FIRREA even though thrifts are believed to be making significant reductions in their holdings of mortgages and related assets.

This has left the yield curve essentially flat, suggesting that only relatively small changes in nominal rates are expected either in the short or long-runs. Inflation expectations, according to the Hoey survey, retreated in August, but to the areas of 5 percent for the next year and 4-1/2 percent over the long-run, which is where they were in the last months of 1988. The implied real rates are lower than they were earlier this year, but above the recent lows of 1986 and 1987. Apparently, now that domestic demand has proven to be a bit stronger than markets generally had anticipated a few months ago, this drop in real rates is viewed as sufficient to keep the economy growing at a moderate rate, even in the face of a higher real value for the dollar. The dollar itself has exhibited underlying resilience; in this regard markets seem to be locked in a virtuous cycle in which prospects for the soft landing have enhanced the attractiveness of dollar assets, and the dollar at recent levels in turn has been seen as consistent with this outcome for the economy.

To paraphrase our Chairman: something, somewhere, is bound to go wrong. I thought I would spend a few minutes today looking at some of the risks to this prevailing outlook and the potential policy responses--concentrating to an extent on developments that might involve the dollar and the trade balance, which, as Mike has noted, play an important role in the staff outlook.

Before discussing these risks, it might be worth noting that the market view of prospects itself contains one possibly disturbing feature--its implied outlook for inflation. Market expectations, embodied in bond yields as well as in answers to survey questions, do not yet indicate confidence in the prospects for substantial progress toward price stability. With the economy seen as running in the neighborhood of its potential and expected to remain there, inflation is not anticipated to change appreciably from the current 4 to 5 percent area. Even if the FOMC considered policy to be sufficiently tight to reduce underlying inflation, perhaps because markets have not factored in certain structural and cyclical elements, the market's skepticism in this regard probably ought to be taken into account when contemplating future policy actions. The Federal Reserve has not yet established the kind of credibility that would help to minimize output losses in the pursuit of price stability.

In the staff forecast, a complicating factor in the soft landing is the prospective dollar decline. This decline, which is projected to be needed at some point to balance supply and demand for dollar assets, impels an upward adjustment in the price level through the direct and indirect price level effects of a deteriorating terms of trade.

More importantly, in a fully employed economy, the downward movement of the dollar tends to lead to a deterioration in the underlying inflation situation, working both through added demands on resources and perhaps a potential ratcheting up in inflation expectations. In these circumstances, with only modest restraint from fiscal policy, achieving even marginal progress on inflation requires monetary policy eventually to tighten, slowing domestic demand and relieving pressures on resources.

A decline in the dollar will tend to boost the price level and the demand for output whenever it occurs. Agreement with the fundamental premise that the dollar is above its long-run sustainable level, however, does not by itself rule out the possibility of near-term policy ease. If domestic demand or underlying inflation pressures were seen to be considerably weaker than in the staff forecast, or if the dollar decline were to be delayed for a considerable period, easing now might be appropriate. With the dollar otherwise stable or the economy weak, the impetus to output and the price level implied by lower interest and exchange rates would be less likely to add to inflation pressures. A view that some drop in the dollar was inevitable would tend to imply caution in any downward policy move, however, and a willingness to reverse policy relatively quickly if the dollar were to begin making its expected adjustment should the economy prove no weaker than consistent with staff or market expectations.

A contrary view--that the dollar was not likely to need to decline eventually--would present a different set of issues for policy. The appropriate policy posture might depend on the source of dollar strength. One possibility is that the dollar would remain steady or

move higher because the trade balance--contrary to staff expectations--continued to improve, reducing the supply of dollar assets that had to be absorbed by foreign saving. In this case, monetary policy would need to be relatively taut to damp domestic demand so that resources were freed to move to the tradable goods sector. On the other hand, dollar strength could persist because of increasing demand for dollar assets sufficient to offset the effects of a stagnant or even deteriorating trade and current account situation. This type of situation might be seen as biasing policy more toward ease if domestic demand were not especially robust, depending on the desired path to price stability.

In that regards, compared with the staff outlook, a strong dollar would afford a better short-run trade off between output and prices. The FOMC would have an opportunity to chose how much of this to realize in a higher path for output, and how much in more certain progress toward price stability. The alternative price projections in the Greenbook, which assume dollar stability, take the bonus entirely in prices--yielding a 1/2 point reduction in inflation in 1990 compared to the baseline forecast, on top of the half-point bonus already enjoyed in 1989; still lower interest rates and faster money growth would result in more output and less improvement in inflation over the intermediate run.

With most interest rates and other domestic financial market prices proving relatively immune to a variety of onslaughts over the intermeeting period, and the economy about as expected, M2 came in close to projections over the last two months, though the restructuring of the thrift industry depressed M3 by more than we had anticipated.

With respect to M2, there appears to be little appreciable overall effect from thrift and RTC actions. Some small damping of M2 growth might be possible, though, if retail time deposit offering rates remain restrained relative to market rates through the direct action of RTC and indirectly by relieving pressures on competitors. Even without this effect, the outlook for M2 growth is for deceleration at current or higher interest rates. Expansion of M2 would likely remain somewhat above the pace of income growth for a time, however, owing to the lagged effects of previous rate declines. Indeed, under the further rate declines of alternative A, M2 would decelerate very little, and likely would be growing above its tentative target growth cone in early 1990.

A number of developments seem to account for the unexpected weakness in M3, including especially high Treasury balances at commercial banks that substituted for M3 sources of funds. Of greater importance and longer lasting significance, however, was the effect of the restructuring of the thrift industry keyed to the new legislation. Not only did RTC funds substitute for M3 funding, but marginally capitalized institutions appear to have made substantial efforts to pare assets to meet capital requirements. In September, M3 was at the lower end of its annual range. Projections of thrift behavior and associated M3 are unusually difficult in the new environment. On the assumption that the pace of asset shedding and RTC payments will slow a bit and the Treasury balance will decline, we have projected a pickup in M3 growth in the months ahead. Still, expansion of this aggregate likely will remain very subdued, coming in close to the lower end of its range for the year.

Such a performance would be cause for concern if it indicated underlying weakness in credit extensions, arising either from disruptions to the process of converting saving to investment as a consequence of the shrinkage of the thrift industry, or from an overly tight monetary policy that was discouraging lending and borrowing. Corollary evidence suggests that neither is the case at this time. Presumably, the interruption in credit associated with the thrift situation would be manifest in the mortgage market, and might damp aggregate demand by adding availability constraints to cost-of-credit effects. So far, this does not seem to be occurring. We do not have complete data on mortgage flows, but partial information indicates that banks and other institutional investors are taking up the slack. Indeed, the narrowing of spreads in mortgage markets over the intermeeting period suggests that some of the market concerns about the effects of FIRREA may have been exaggerated.

With regard to overall credit growth, fragmentary data suggest that it also has been relatively well maintained. Bank credit seems to have expanded at about a 7 percent pace in August and September, about in line with its rate thus far this year. Overall credit growth is estimated at around 8 percent in recent months, down from last year in concert with more moderate nominal GNP expansion, but with no tendency to decelerate as the year has gone on. Thus, the shortfall in M3 probably should be read as indicating a restructuring in credit flows, rather than emergence of underlying weakness.

Finally, with respect to policy implementation, borrowing and the federal funds rate came in close to expectations over the last intermeeting period, after allowing for the effects of Hurricane Hugo. However, seasonal borrowing over coming maintenance periods is expected to drop by substantial amounts. Such declines likely would manifest themselves as observable shifts in the overall borrowing function, given their expected size and the relative interest insensitivity of adjustment borrowing at these levels. This situation would seem to call for a technical adjustment in the borrowing objective. Given the steep trajectory of the expected drop in seasonal credit over the intermeeting period, a single adjustment keyed to an average decline in seasonal borrowing over the whole period might not be consistent with desired pressures in money markets early and late in the period. Consequently, after consultation with Mr. Sternlight, the bluebook suggested that the adjustment be made in several tranches, beginning with \$50 million in the upcoming period. We would expect the Desk to consult with you, Mr. Chairman, in making any further changes. Such adjustments would not be intended to have policy significance, but rather would give the Desk a target it could shoot at with less concern about federal funds rates coming in substantially at variance with those the Committee was expecting.